

Transforming the Military Retirement System - The Case for Change

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Why Reopen the Military Retirement Debate

Manpower requirements	Increased value of technology and experience
Personnel Systems	Increased flexibility required to manage force
Interrelated policies	20 year retirement is cornerstone of current policies
Cost	Need to free personnel resources for transformation
Avoid policy creep	DoD already proposing changes for senior leaders.

How has the world has changed since the 5th QRMC?

- **End of cold war** -- substantial force reductions and realignments
- New environment requires more **flexible capabilities** as opposed to “set piece” forces and scenarios
- **Technology** advances have increased force lethality and capability while offering opportunities for streamlining and consolidating
- **Quality** of force has grown substantially

The Evolution of Military Retirement

The unsatisfactory personnel conditions in the Regular Army which prompted these repeated recommendations of the War Department that Congress provide some form of retirement for the Regular Army were emphasized during the extended field service required over the period 1812-1861.

House Military Affairs Committee, 1926, as quoted in Military Compensation Background

Pap

**From
readiness**

Our goal is to prevent any erosion in the value of military retirement and to support continuing health care access to retirees. (USAF FY98 Budget Priorities)

**to
entitlement**

Military Compensation Philosophy

- Military compensation should be **cost-effective, flexible and fair**
- Cost effective because Nation can not afford to waste taxpayers dollars
- Flexible because Armed Forces compete with private and other public employers – need to be able to change as force manning requirements, cultural expectations and labor markets change
- Viewed as fair by public and members

Reasons for Having a Military Retirement System

Reason	Current Performance
Provide old age annuity for members	High replacement income with SS and health care
Assist transition to civilian employment	One time transition payment could be more effective
Provide tools to shape the force	Very blunt instruments indeed
Provide career incentives to members	Incentives may sub-optimize service needs
Provide performance incentives to members	A mixed bag at best
Provide fair value to taxpayers	Cost exceeds \$45B/year

The Case for Change

- **FORCE PLANNING:** The current system does not allow defense manpower and personnel managers the flexibility to shape the force to meet the substantial challenges of future. Overstates youth and vigor.
- **INCENTIVES:** The current system encourages behaviors and choices by active duty and reserve members that are sub-optimal for the success of the services into the future.
- **EQUITY:** Most military personnel never receive any benefits from the system.
- **COST:** The current system is expensive, driving personnel costs to unsustainable levels, and driving down resources available for transformational capabilities.

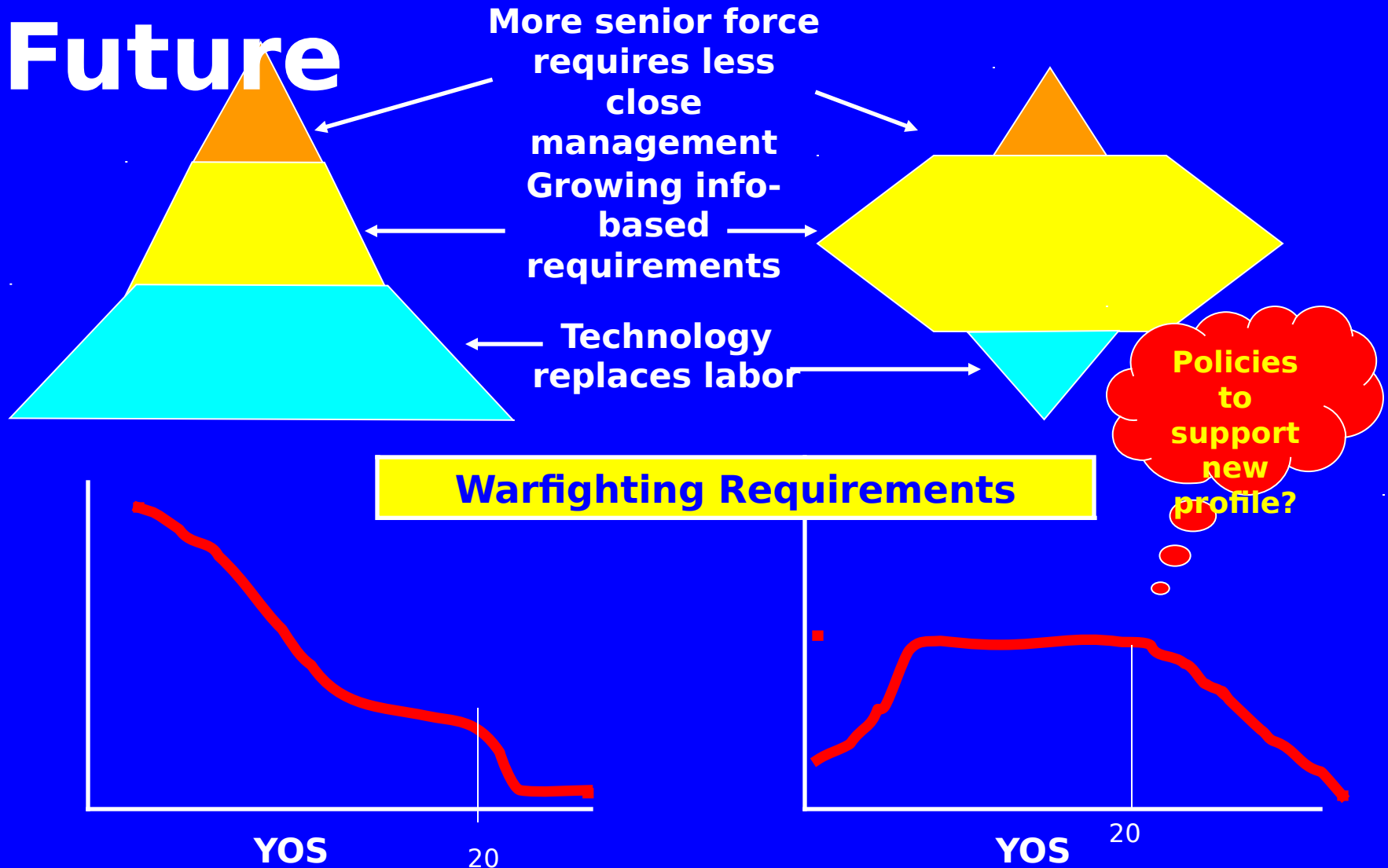
Retirement system as an element of force management

- Current system evolved gradually since Civil War – primarily as a method of managing officer force before and after war
- Trend over time has been to reduce both minimum years for voluntary retirement and age or years for mandatory retirement

Date	Voluntary Retirement	Mandatory Retirement
Pre 1855	None	None
1862	After 40 YOS	45 YOS or age 62
1917	After 40 YOS	O6 at age 56; O5 at 50; O4 at 45
1948	After 20 YOS	Most by 30 YOS

Source: Compiled from Military Compensation Background Papers – for Officers

Force Profiles - Now & Future



Retention Impacts

- Little impact on recruiting
- Provides strong incentive for those at 9+YOS to stay to 20 years - even if Service has no real demand for them
- Provides even stronger incentive for most to leave soon after 20 years
 - Immediate annuity payments and health care
 - Mandatory retirement by 30 YOS forces many to leave sooner to start second career
 - Results in loss of critical technical and leadership skills

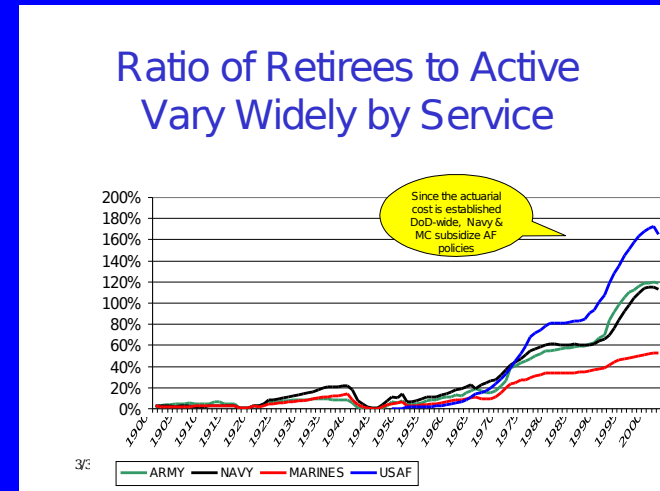
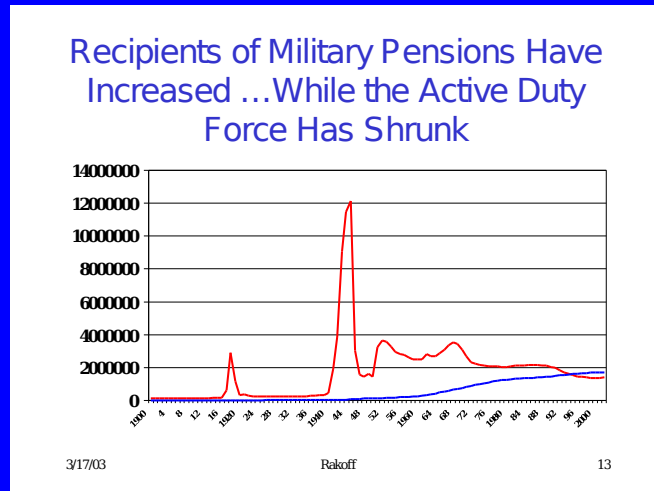
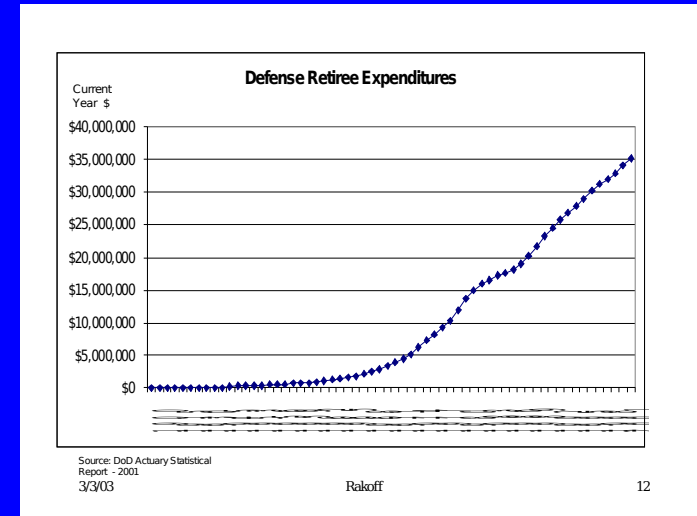
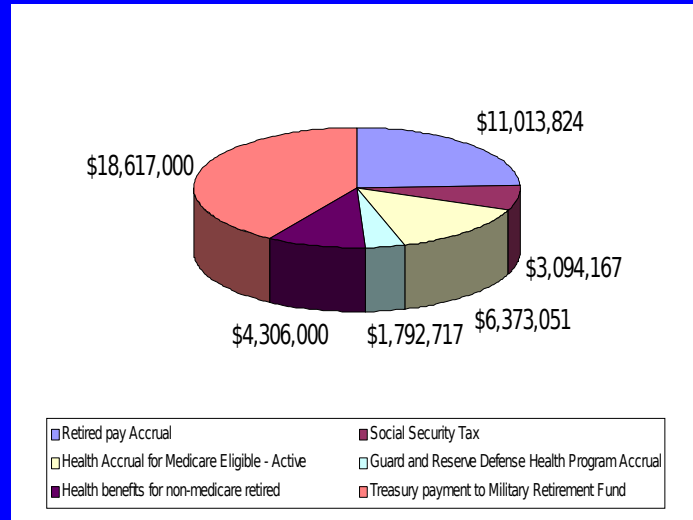
Retirement System and Promotions

- Initial design post-WWII expected few retirements at 20 YOS – most serving to 30
- Insuring high morale, performance and retention should not rest wholly on either the retention or retirement system

“Promotion phase points and opportunity objectives are largely dependent on the current 20-year retirement system and the retention and loss patterns it produces.” (PCMC)

“Currently, personnel rules that promote officers to higher grades at certain points in time are irrespective of whether more officers in those grades may be needed.” (Rand Corp, 2003)

Annual Cost of Military Retirement Exceeds \$45B



Issues For Retirement System Design

- **Defined benefit vs. defined contribution**
- **Service and member contributions**
- **Vesting point**
- **Old age annuity replacement value**
- **Transition assistance**
- **Social Security Integration**
- **Inflation protection**
- **Flexibility to accommodate 4 service needs**
- **Incentive to join Reserves**

Roadmap for Change

- **Make retirement system change focus of 10th QRMC**
- **Engage services to build force models based on transformation plans and without assuming 20 year retirement**
- **Develop and socialize specific elements of a new retirement system**